FOURTH QUARTER 2022 REVIEW & OUTLOOK
EXECUTIVE SUMMARY

12 January 2023

PORTFOLIO THEMES

- We believe a new bull market cycle is close, if not already underway. We expect the equities that fell the most during the downturn likely lead in the recovery.
- Widespread pessimism over inflation, central banks and recession likely creates an environment that supports positive returns in 2023.
- Underappreciated economic fundamentals such as strong loan growth, robust corporate balance sheets and continued strength in labour markets are largely incongruous with recession fears.

MARKET OUTLOOK

- **Global Market Recovery is Near or Underway:** Global equities' Q4 rebound demonstrates how a better than expected reality can quickly reverse market drawdowns. This also creates a path for material upside where growth likely proves more resilient and enduring than the current, dour forecasts expect.
- **Overly Depressed Investor Sentiment Supports Coming Rebound:** Universally dour sentiment, driven by concerns on inflation, energy crunches, the Russia-Ukraine War and a variety of other factors has significantly lowered investor expectations, allowing room for the new bull market to grow.
- **US Politics Provides Clear Path Forward for Markets:** Divided US government historically fuels a positive three-quarter stretch for equities—the three quarters starting 1 October in a midterm year were positive 92% of the time, with average returns of 20%. Similarly, the third year of a US president's term historically has the highest frequency of positive returns of the four-year cycle.

Q4 brought some relief from 2022's downturn with a 9.8% return for the MSCI ACWI Index—extending the long history of post-US midterm positivity.[i] Emerging Markets (EM) also rebounded and finished the quarter with a 9.7% gain.[ii] Turning points are impossible to predict and clear only in hindsight, and thus it is still too soon to know if October's low marked the bear market's end. However, whether the new bull market began in Q4 or arrives this year, we think equities are most likely to end 2023 higher.

In 2022, we expected early volatility with a late year rally, but the tragic Russia-Ukraine war, high inflation, interest rate hikes, political rancor and more dragged equities down into a shallow bear market. Usually, equities move past such widely known factors quickly. However, last year's constant stream of negative headlines, created yearlong uncertainty. Even when reality turned out better than feared—like second-half economic data—pessimists dismissed it, warning worse was still ahead, a classic sign of "the pessimism of disbelief" as we have often noted.

i Source: FactSet, as of 03/01/2023. MSCI ACWI Index return with net dividends, 01/10/2022 – 30/12/2022.

ii Source: FactSet, as of 03/01/2023. MSCI EM Index return with net dividends, 101/10/2022 – 30/12/2022.

Nevertheless, markets now appear to have reckoned with many of these concerns, and improvement on some—like inflation—should make 2023 a year of positive surprise, relief and recovery. In fact, we think the new bull market should bring sizable early gains where average S&P 500 returns in the 6 and 12 months off bear market lows since 1925 are 29.0% and 48.7%, respectively.[iii]

Positioning portfolios for a new bull market in 2023 is paramount now, even given the possibility of the long-feared recession. Surveys show business leaders, economists and almost everyone else expect an economic downturn, making this perhaps the most widely and longest-anticipated recession in US market history.[iv] That has given businesses time to prepare—and markets time to weigh the impact, muting the effects if recession arrives. As Ken has said, "anticipation is mitigation." Equities look forward, pre-pricing downturns. That may have been happening in 2022. If we don't get a severe 2023 recession, positive surprise would gradually replace fear as pessimists surrender, buoying equities.

Even if a recession occurs, it would be extraordinary for equities to decline from January 2022 to January 2024. Counterintuitively, a recession could grant clarity—ending the pessimistic cycle of waiting on negatives. To get a second down year would likely require something new and completely unexpected—not just a recession. While a true "black swan" event is possible, positioning for remote possibilities is unwise. Additionally, many say we need "capitulation" first. But that doesn't always happen and many factors, including weakness in most "safe haven" assets, suggest it won't now.

The overwhelming probability is the world looks much better at 2023's end than almost anyone perceives today. US politics is one reason. As we expected, the Republicans didn't get a landslide victory in November's midterms. But they won enough to deliver gridlock, kicking off the "Midterm Miracle"—history's most positive nine-month stretch starting in midterm year Q4s. 2022's was an almost perfectly average midterm Q4 return. A year from now, the reality of partisan gridlock will likely have dawned on all, with few major bills likely to pass. Inflation should keep slowing and Fed rate hikes will likely have proven feckless, as banks' high deposit bases mute the fed-funds rate's impact on loan profitability and enable banks to lend enthusiastically at big profits. On all fronts, we believe 2023 should bring relief.

Across the globe, Europe looks to have weathered feared winter energy shortages better than almost anyone envisioned. In the UK, many worried mid-December severe weather conditions would pressure the National Grid. But the public was able to use energy as normal, and the National Grid didn't have to resort to its emergency contingency plan of restarting two coal-fired power stations.

Another looming concern amongst global investors in Q4 is the continued possibility of a recession in Europe. Q3 UK GDP contracted -0.3% q/q, with the Bank of England presuming a downturn is already underway.[v] We have seen similar forecasts for the eurozone. The consensus views suggest baseline expectations for Western Europe's economic growth are dour, so if a downturn occurs, it wouldn't have much surprise power, in our view. Rather, it would confirm what most already anticipate and may actually reduce uncertainty. If the UK or eurozone grow at even a tepid rate this year, that could surprise to the upside—potentially lifting markets.

iii Source: FactSet, as of 30/12/2022. S&P 500 average price return in the first 6 and 12 months of bull markets, 01/06/1932 – 30-/12/2022.

iv Source: Federal Reserve Bank of Dallas, The Wall Street Journal, Bank of America, Bloomberg, Barron's, Federal Reserve, PwC, AICPA and The Conference Board, as of 29/12/2022.

v Source: FactSet. Quarterly change in UK Q3 GDP.

In EM, China is reopening which should boost growth across Asian countries in time. After easing some restrictions in November, officials ended the requirement for people with mild or asymptomatic cases to quarantine in centralised facilities. People who have close contact with those who test positive may also quarantine at home from now on, and testing requirements for domestic travel have ended. While the government declined to downgrade the virus from a Category A to Category B infectious disease, which would have ended local authorities' ability to implement lockdowns, the overall acceleration of the end of Zero-COVID was seemingly enough to help investors price in the end of restrictions within the foreseeable future.

In the Latin American political landscape, Brazilian President Luiz Inácio "Lula" da Silva won the second round of October's presidential election against incumbent former President Jair Bolsonaro. However, right-leaning parties gained ground in October's election, which would give President Lula's allies less power when the new legislature convenes in February. Despite the rioting that has persisted well past the election, we think gridlock under the new administration will be stronger than many seem to anticipate today.

Peru also experienced a jolt from political uncertainty. Early in December, now-former President Pedro Castillo attempted to suspend the legislature, rule by decree, reorganise the judiciary and impose a nationwide curfew—a move widely condemned as an attempted coup. Congress impeached him in response, with the move earning broad support—even within former President Castillo's leftist party. The measure to remove him passed easily and Vice President Dina Boluarte assumed the presidency. While the political uncertainty for both countries remains tense and unclear for now, the potential for falling uncertainty in 2023 appears high.

On the sentiment front, US consumer confidence surveys hover near historical lows, yet consumer spending—adjusted for inflation—rose throughout the year. Bank executives talk up recession but aren't provisioning extra for loan losses. On the contrary, banks are lending freely despite the inverted yield curve. Traditionally, the inverted curve signaled recession because it meant banks' funding costs exceeded potential loan revenues, drying up credit. However, with deposits costing near-zero and loan interest rates up with long-term Treasury yields, lending has become even more profitable—hence, the fast loan growth. People rarely sit on borrowed money. They typically spend and invest it, fueling growth.

An abnormal 2022 feature was equities and bonds moving in parallel. That should continue in 2023—but positively this time—as it did in Q4 2022. US 10-year Treasury yields are already down nicely from recent highs, helped by easing inflation. Commodity prices are down, supply chains are evening out and money supply growth globally has cooled dramatically. In the US, it has flatlined. With this, the dollar should continue weakening from its relative high, easing false fears of it hampering multinational equities.

By yearend 2023, a new bull market cycle should be well underway, but the path won't be placid. Volatility and pullbacks have struck early in bull markets without derailing them. At this stage in the market cycle, patience is best and should be rewarded over time. Our priority is to best position portfolios to capture returns from the upcoming, or ongoing, recovery while many still can't fathom a positive 2023.

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1. FISHER INVESTMENTS EUROPE

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2. COMMUNICATIONS

Fisher Investments Europe can be contacted by mail at Level 18, One Canada Square, Canary Wharf, London, E14 5AX; by telephone on +44 0800 144 4731; or by email to FIEOperations@fisherinvestments.co.uk. All communications with Fisher Investments Europe will be in English only. Fisher Investments Europe's web address is https://institutional.fisherinvestments.com/en-gb.

3. SERVICES

These Terms of Business explain the services offered to professional clients and will apply from when Fisher Investments Europe begins to advise you. Fisher Investments Europe offers restricted advice only (meaning it does not offer independent advice based on an analysis of the whole of the market), as more fully explained in Clause 4 below. As part of its services, Fisher Investments Europe seeks to:

a) Reasonably determine your client categorisation;

b) Understand your financial circumstances and investment aims to determine whether the full discretionary investment service described in Clause 4 and the proposed investment mandate and accompanying benchmark(s) (or an Undertaking for Collective Investment in Transferable Securities ("UCITS") with a similar mandate and benchmark for which Fisher Investments Europe's parent company serves as investment manager) are suitable for you;

c) Explain features of the investment strategy;

d) Describe investment performance as it relates to the investment strategy;

e) Provide a full explanation of costs;

f) Assist in the completion of documentation;

g) Where specifically agreed, review your position periodically and suggest adjustments where appropriate.

Fisher Investments Europe will not provide ongoing services unless you enter into an agreement for discretionary investment management services or invest in a UCITS as described in Clause 4.

4. DISCRETIONARY INVESTMENT MANAGEMENT SERVICE AND INVESTMENTS

To help you achieve your financial goals, Fisher Investments Europe may offer its discretionary investment management services. In such case, Fisher Investments Europe will delegate the portfolio management function, as well as certain ancillary services, to its parent company, Fisher Asset Management, LLC, trading as Fisher Investments, which has its headquarters in the USA and is regulated by the US Securities and Exchange Commission. In certain limited circumstances where appropriate, Fisher Investments Europe may recommend that you establish a discretionary investment management relationship directly with Fisher Investments. In such case, Fisher Investments Europe acts as an introducing firm. A separate investment management agreement will govern any discretionary investment management relationship whether with Fisher Investments Europe or with Fisher Investments. Subject to applicable regulations, for qualified investors Fisher Investments Europe may recommend an investment in UCITS regulated by the Central Bank of Ireland and for which Fisher Investments serves as investment manager.

5. CLIENT CATEGORISATION

Fisher Investments Europe deals with both retail clients and professional clients. All clients and potential clients who deal with Fisher Investments Europe's institutional relationship managers ("RMs") will be treated as professional clients, either through qualification as a professional client or, in the case of local municipal authorities, through opting up to be treated as a professional client. Accordingly, you are categorised as a professional client. You have the right to request re-categorisation as a retail client which offers a higher degree of regulatory protection, but Fisher Investments Europe does not normally agree to requests of this kind.

6. FINANCIAL SERVICES COMPENSATION SCHEME ("FSCS")

Whilst the activities of Fisher Investments Europe are covered by the FSCS, compensation under the FSCS in the event Fisher Investments is unable to meet its liabilities because of its financial circumstances is only available to eligible claimants. Because you have been categorised as a professional client, you are unlikely to be eligible. In addition, the protections of the UK regulatory regime, including the FSCS, do not apply in relation to the services of Fisher Investments or any non-UK service providers or to the extent your assets are invested in non-UK funds or ETFs. In the event you are eligible and do have a valid claim, the FSCS may be able to compensate you for the full amount of your claim up to £50,000 per person per firm. You can contact Fisher Investments Europe or the FSCS (www.fscs.org.uk) in order to obtain more information regarding the conditions governing compensation and the formalities which must be completed to obtain compensation.

7. RISKS

Investments in securities present numerous risks, including various market, currency, currency fluctuation, economic, political, instability, business, differences in financial reporting, liquidity risk, interest rate risk, credit risk, and other risks, and can be very volatile. Investing in securities can result in a loss, including a loss of principal. Using leverage to purchase and maintain larger security positions will increase exposure to market volatility and risk of loss and is not recommended. Investments in securities are only suitable for clients who are capable of undertaking and bearing a risk of loss. Specific risks associated with particular types of securities that may be held in your account are explained further in the IMA. Past performance is not a guarantee nor a reliable indicator of future investment returns. Fisher Investments Europe cannot guarantee and makes no representation or warranty as to future investment returns or performance. There is no guarantee for avoidance of loss, which is impossible with investments in securities, and you have not received any such guarantee or similar warranty from Fisher Investments Europe or any representatives thereof.

8. DATA PROTECTION

To advise you on financial matters, Fisher Investments Europe may collect personal and sensitive information subject to applicable data protection laws. By providing such information to Fisher Investments Europe, you consent to Fisher Investments Europe processing your data, both manually and electronically, including transferring data outside the European Economic Area, including to its parent, Fisher Investments, in the United States, for the purposes of providing services and enabling Fisher Investments to provide services, maintaining records, analysing your financial situation, providing information to regulatory bodies and service providers assisting Fisher Investments Europe and/or Fisher Investments in providing services, or otherwise permitted by law. Upon request, you are entitled to obtain access to and to rectify the data relating to you.

9. CUSTODY AND EXECUTION

Neither Fisher Investments Europe nor Fisher Investments is authorised to hold client money. Neither Fisher Investments Europe nor Fisher Investments will accept cheques made out to it in respect of investments, nor will they handle cash. All client assets are held at external custodians where each client has a direct account in their own name. If you appoint Fisher Investments Europe as your discretionary asset manager, execution of transactions will be arranged through such custodians and brokers and at such prices and commissions that Fisher Investments determines in good faith to be in your best interests. Further information regarding selection of brokers is set out in the investment management agreement with Fisher Investments Europe (the "IMA").

If you appoint Fisher Investments Europe as your discretionary asset manager, Fisher Investments Europe or Fisher Investments, pursuant to an outsourcing agreement with Fisher Investments Europe, will arrange for the execution of transactions through those custodians and brokers and at such prices and commissions that it determines in good faith will be in your best interests. Further information regarding the selection of brokers is governed by the IMA. Fisher Investments Europe does not structure or charge its fees in such a way as to discriminate unfairly between execution venues.

The brokers and dealers to which your transactions may be allocated will use various execution venues, including without limitation:

a) Regulated Markets in the USA or elsewhere (usually those exchanges where companies have their primary listing and other exchanges on which their securities are admitted to trading);

b) Multi-Lateral Trading Facilities ("MTF") and Organised Trading Facilities ("OTF") in the USA or elsewhere (i.e. a multilateral system, operated by an investment firm or a market operator, which brings together multiple third-party buying and selling interests in financial instruments—in the system and in accordance with non-discretionary rules—in a way that results in a contract);

c) Systematic Internalisers (which are investment firms dealing as principal and providing liquidity on a systematic basis);

d) Other liquidity providers that have similar functions to any of the above;

e) Counterparties that may access the above venues on behalf of Fisher Investments Europe or Fisher Investments (or their clients) or trade on their own account.

You must be notified and approve of any off-venue trades prior to execution unless previously agreed to by you directly with the custodian. As a result of brokers/dealers using the execution venues mentioned above, your transactions may be executed on an execution venue that is neither a regulated market in the European Union nor an MTF in the European Union and therefore you will be required to expressly consent to the execution policy of Fisher Investments Europe by signing the IMA.

Fisher Investments Europe's top five trading venues are listed on its website.

Generally, financial instruments will not be affected if a custodian suspends payments or goes bankrupt. This is due to the fact that you will normally be able to take possession of your financial instruments based on the custodian's registration of your rights. Generally, it is only if the custodian fails to handle your financial instruments or register your rights correctly where you may not be able to take possession of the financial instruments.

If you appoint Fisher Investments Europe as your discretionary asset manager, you will receive a periodic statement every calendar quarter. This statement compares the performance of your account with that of a relevant benchmark in order to facilitate the assessment of performance achieved by the account. For performance, management fee calculation and reporting purposes, exchange traded equity securities are valued based upon the price on the exchange or market on which they trade as of the close of business of such exchange or market. All equity securities that are not traded on a listed exchange are valued using a modelled estimate of the bid price, also known as a bid evaluation, provided by Fisher Investments Europe's primary pricing service. Fixed income securities are valued based on market quotations or a bid evaluation provided by Fisher Investments Europe's primary pricing service. All securities are valued daily given a price from Fisher Investments Europe's primary pricing service is provided; otherwise, all securities are valued on at least a monthly basis.

10. CONFLICTS OF INTEREST

Fisher Investments Europe has a conflicts of interest policy to identify, manage and disclose conflicts of interest Fisher Investments Europe, Fisher Investments or any of their employees or representatives may have with a client of Fisher Investments Europe, or that may exist between two clients of Fisher Investments Europe. Fisher Investments Europe's conflicts of interest policy covers gifts and favours, outside employment, client privacy, inadvertent custody, marketing and sales activities, recommendations and advice, and discretionary investment management services. RMs employed by Fisher Investments Europe are paid a variable component of their total remuneration, calculated as a percentage by reference to management fees paid to the Investment Manager during the first three years of the client relationship. Such remuneration is will not increase or impact the fees payable by you. Details on Fisher Investments Europe's conflicts of interest policy are available on request. In addition, Fisher Investments Europe provides a copy of Fisher Investments' Form ADV Parts 2A and 2B to all clients, detailing additional conflicts of interest applicable to Fisher Investments.

11. FEES

If you appoint Fisher Investments Europe as your discretionary investment manager, you will pay management fees to Fisher Investments Europe as detailed in the IMA. Fisher Investments Europe will pay a portion of such management fees to Fisher Investments as the sub-manager. If you appoint Fisher Investments directly as your discretionary investment manager, you will pay management fees directly to Fisher Investments as detailed in the investment management agreement. If you invest in a UCITS fund managed by Fisher Investments, Fisher Investments will receive its management fee indirectly through the UCITS. Fisher Investments Europe does not charge a separate fee for its introducing or distribution services. You will also incur transaction and custody fees charged by brokers and custodians. However, any such additional fees will be payable directly to brokers/custodians, and neither Fisher Investments Europe nor Fisher Investments will share in any commission or other remuneration.

12. TERMINATION

If you wish to cease using the services of Fisher Investments Europe at any time, then send notification and the arrangement will cease in accordance with the IMA. However, if a transaction is in the middle of being arranged on your behalf at that time and it is too late to unwind it, then the transaction may need to be completed first.

13. COMPLAINTS

Fisher Investments Europe seeks to provide a high standard of service to clients at all times. If you have a complaint about services, please contact Fisher Investments Europe:

by writing to:	Head of Compliance Fisher Investments Europe Limited Level 18, One Canada Square Canary Wharf, London, E14 5AX
or by calling:	+44 0800 144 4731
or by emailing:	FIEOperations@fisherinvestments.co.uk

Fisher Investments Europe will endeavour to resolve the matter, as soon as practicable and generally within 8 weeks. If you are dissatisfied with the outcome of any complaint made to Fisher Investments Europe, or you do not receive a response within such time, you may be eligible to complain directly to the UK Financial Ombudsman Service ("FOS"). Further details in respect of FOS can be found at www.financial-ombudsman.org.uk.

14. GOVERNING LAW

These Terms of Business are governed by English law.

Should you have any questions about any of the information provided above, please contact FIE by mail at Level 18, One Canada Square, Canary Wharf, London, E14 5AX or by telephone at +44 (0)207 299 6848.